

KOREA'S CHANGING LABOR AND UNEMPLOYMENT POLICIES

by Chang-Kyun Chae

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To overcome the current economic crisis, it has become inevitable to introduce flexibility into the labor market. In particular, the most important development has been legalizing layoffs, thus giving corporate leaders more control over in personnel management affairs.

Grand Compromise between Labor and Management

As a way of establishing a system to make the labor market more flexible, a tripartite labor-management-government panel was formed in January of this year. Owners of the top five domestic corporations and the leaders of two umbrella labor unions, the Federation of Korean Trade Unions (FKTU) and the progressive Korean Confederation of Trade Unions (KCTU), were counterparts at this panel. The tripartite committee members discussed many controversial issues including industrial restructuring and granting layoffs.

The labor unions finally consented to layoffs in early February in a landmark agreement with the government and employers to help revive the nation's battered economy through quick industrial restructuring. Legalizing layoffs, the core part of the agreement, marks a shift toward American-style "cruel" capitalism, replacing the existing "Confucian" capitalism in Korea. The agreement brightened the prospects that Korea might pull itself out of the current economic trouble through mutual sacrifices as Mexico did a few years ago.

For a More Flexible Labor Market

With legalized layoffs, employers are now able to dismiss workers in the course of M&As other instances of the dissolution of companies and in case of managerial urgency. However, management will not be granted full discretion in laying off workers. Management must first exhaust all other options to avoid layoffs, including salary cuts, reducing working hours, retraining and unpaid leave. Decisions on who is to be laid off must be made in a rational and transparent way. Management must also notify the Labor Ministry 60 days before laying off workers if 10 or more percent workers of all the employees or 100 or more workers should be laid off. Also, layoffs can only be initiated after "sincere consultation" between management and labor. Management is obligated to "try to rehire" dismissed workers as new opportunities open within two years. Also, layoffs based on the gender of a worker are banned.

The worker dispatch system was also legalized. Now companies can "borrow" professional or blue collar workers under certain conditions. However, the workers who are engaged in the production process of the manufacturing sectors, cannot be borrowed.

Though many workers will endure some pain because of massive unemployment, the labor side will also gain more rights. The three sectors agreed to amend laws to permit labor organizations to engage in political activities before this June, allowing unionists to run in the upcoming local elections. Public servants

are allowed to form a labor consultive body from 1999. Teachers will also be able to form a trade union in July 1999, but will not have the right to collective action.

The ideal labor market type the Korean government is seeking appears, at least to the author, to be an American-style labor market where employers can dismiss their employees without much restriction, but laid-off employees can get jobs easily, so the unemployment rate can be reduced in a business upturn. Because the "paradox of layoffs" that granting permission to lay off workers is to reduce unemployment is always true in the real economic world, the direction of the Korean government's employment policy is not wrong.

Worries about high unemployment

However, the legalized layoff system will fundamentally change the decades-long general practice of ensuring stable employment until retirement age. As a result of Korea's economic difficulties and the legalized layoffs, workers are very concerned about a possible dramatic rise in unemployment.

The number of jobless reached 1,378,000 in March. The country's unemployment rate reached 6.5 percent in March, a more than two-fold increase from last year's average 2.6 percent, a Labor Ministry tally showed. Morgan Stanley, a world-renowned U.S. brokerage house, forecast that unemployment might rise sharply to 2 million if the nation succeeds in reforming the large business conglomerates. Morgan Stanley said, "the main reason why the bankruptcies of the large business conglomerates stopped last winter was because the financial institutions have volunteered to roll over their credit to them, but we know well that this would only postpone the inevitable: successful large business conglomerate reform will invariably involve bankruptcies."

Mentioning the financial sector reform, it said that bankruptcies of financial institutions, especially life insurance and trust companies, are likely in the next 6 to 18 months as a result of imprudent lending in the past and continued support to the large business conglomerates in recent months.

The Government's Unemployment Policies

For the first time in decades, the Korean government kicked off an all-out campaign to reduce the jobless rate. In a weekly meeting with Cabinet members and economic advisors, the president emphasized the unemployment problem as the number one priority for his administration to resolve. The Korean government is trying to reduce the burden of unemployment in several ways.

First of all, the number of jobless who can get unemployment insurance has been expanded. Now insurance benefits are allowed to the employees of establishments with 5 or more workers. However, a great number of jobless still cannot apply for unemployment benefits. According to the Labor Ministry, 76 percent of the unemployed are not able to get unemployment benefits. So Korean government plans to support their living by providing them with low-interest loans and offering them jobs through the expansion of public work projects.

Second, infrastructure of the labor market will be expanded. The vocational training system is still inefficient and lacking in Korea. And other infrastructure such as an employment security network which gathers all information about vacant jobs and the unemployed and matches job seekers to applicants for workers is still very weak. Therefore the Korean government is trying to expand infrastructure of the labor market so that it can help the unemployed get new jobs as soon as possible. However, as the expansion of this infrastructure cannot be

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accomplished in the near future and support for the unemployed is still limited, long-term unemployment and the problems of the unemployed in supporting themselves could be very serious.

Accordingly, the Korean government is trying to build more fundamental and active unemployment policies recognizing the limits of these policies. Policies for the minimization of the jobless are being prepared. Financial support for small- and medium-sized business will be made to stabilize employment in that sector. Companies which reduce the working hours of their employees, provide them with vocational training or suspend business operations and give them some allowances for that period instead of laying off their employees will be supported by the government. Some portion of their cost will be subsidized from the unemployment insurance.

Above all, creating a lot of new jobs is necessary in order to reduce unemployment. The Korean government feels envious of the American experience. Recognizing that the success of venture businesses in America has contributed to the creation of a significant number of jobs and reduced unemployment, the Korean government has made ambitious plans to support venture businesses financially.

One of the biggest problem of the government's unemployment policies is how to raise the funds necessary to execute the above policies. In particular, the Korean government plans to issue long-term government bonds worth more than \$1 billion at an 8.5 percent interest rate. However, the interest rate is too low for them to be sold out.

Some funds are expected to be raised from cutting public servants' wages by 10%. However, public servants' wages are already low being compared with the private sector, so cutting their wages might depress their morale and lead to greater temptation for corruption among government officials.

While unemployment is the most serious problem to be tackled aggressively by the government, the Korean government also recognizes that the fundamental solution of the unemployment problem is to strengthen the Korean economy through restructuring. This will build up overseas confidence in Korea and help Korea cope with the foreign exchange crisis and increase its export competitiveness. To some degree unemployment is inevitable in this process. The Korean economy is now in a paradoxical situation where unemployment should be increased to solve the unemployment problem.

A firm consensus between labor and management is necessary to restructure the Korean economy and minimize the social unrest caused by massive unemployment. Accordingly, the Korean government is trying to form a second tripartite labor-management-government panel to once again form a consensus between labor and management. However, labor tensions have become more tense. At one time the members of the militant KCTU would not accept the compromise reached by the tripartite committee. They declared a general strike that was scheduled to start on February 13 in protest of the legislation of massive layoffs. While the KCTU fortunately decided to cancel this general strike at the last minute, the labor side continues to resist the formation of the second tripartite panel, arguing that they are only ones bearing the burden of current economic crisis. Their strong protests are causing many both in Korea and abroad to worry about the Korean economy's immediate future. However, to the author, the situation is not as pessimistic as it may seem. Even through the Korean labor movement may often seem to be overly aggressive and selfish, in the end they will most likely do what is right for the country, just as the KCTU decided to cancel its scheduled general strike this February. **VIP**

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